DRAFT

The Intergovernmental Relations Committee of Governor McDonnell's Government Reform and Restructuring Commission proposes that the Governor and the General Assembly undertake a new analysis of state/regional/local relationships to create the appropriate infrastructure, incentives, accountability and processes necessary to dramatically improve the efficiency, effectiveness and economic competitiveness of the diverse regions of the Commonwealth. It is expected that a more complete recommendation would be developed if the Committee and Commission react favorably to this proposal.

In a preliminary evaluation of opportunities to improve the efficiency, effectiveness and economic competitiveness of the state, many good ideas have been presented to the Commission. Our Committee believes that possibly the most significant improvements may lie in the systemic change of state/local relations and local-to-local, regional relations. We believe that what has been missing is state action – state incentives and more local accountability for improving efficiency and effectiveness, and strengthening each region's economic competitiveness.

Aggregated annual dollar expenditures of Virginia local governments are \$34.5 billion dollars as compared to \$39.8 billion spent by the state. (2008 U. S. Census S. & L. G. Finance Report). One would have to conclude therefore that efficiency and effectiveness opportunities are at least as great as at the state level. Variation in process, purchases and approaches adds a great deal of cost to service activities whether in or out of government. Purchasing twelve different types of vehicles to

address the same need, at a higher average cost, would seem dysfunctional. Just as has been true for the state, outsourcing and shared services offer great opportunities to the regions. Examples of this practice by local governments abound, but there is no incentive to cooperate and/or spread it across a region. Business increasingly focuses on the critical skill sets they need to compete and succeed, and generally, will seek to outsource other activities, usually at less cost and even higher quality. In addition, internal competition among our localities frequently moves them to devote resources to move a business into their jurisdiction from an adjacent community because of our existing approaches. Large employers adding jobs or coming into the state become frustrated when they cannot get regional responses to their needs. Economic development, many have said, would be improved with more regional approaches.

It is observed that over many decades, there have been numerous studies and some action on this subject. (See Appendix 1.) A great deal of excellent analysis was made. Some incremental change has been achieved, but the most difficult fundamental questions have not been adequately addressed. Almost everyone agrees that regional strategies would both strengthen our regions and the state; yet, with few significant exceptions, the development of regional approaches and structures has been left to the voluntary cooperation of localities or to the definition of state agencies.

We believe that the local politics of near-term self-interest has created a barrier that is difficult to overcome. There are no meaningful financial or other incentives to cooperate regionally. Furthermore, we have observed a number of issues that make regional effectiveness difficult to attain:

Differences between the powers and responsibilities of cities and counties,

- Hundreds of state mandates which now govern many local activities and which are rarely modified or eliminated,
- The lack of outcome based accountability for services performed by localities with state funds and/or on behalf of the state,
- And, current interpretations of the Dillon Rule.

All of these should be re-examined to best position the Commonwealth for future success.

Again, we do not presume to predict the results of such a re-examination, but we are confident change can enhance the efficiency of local expenditures, the effectiveness of services provided for the state (including more transparency for citizens to see the outcomes achieved through governmental expenditures), as well as combine unitary local strengths into more leverageable, regional competitive strengths. With few exceptions, no one locality is as strong by itself as it is when disparate strengths of localities are combined, and negative consequences and weaknesses avoided or moderated.

In addition, over the years, numerous regional structures have been created geographically which are as diverse and different as they are in number. It is very confusing. There is little synergy. Almost every regional structure functions separately. (See <u>Virginia Performs</u>: A <u>Regional Perspective</u> from the Council on Virginia's Future attached as Appendix 2.) It may well be that uniformity of regional definitions is not essential, but the issue needs to be considered.

Borrowing on some existing models inside the state, especially restructuring of higher education over the last decade, we can already envision viable fresh approaches to these issues.

As an example, after reconciling existing differences between cities and counties and identifying some state oversight of localities, which may be unnecessary, more autonomy could be granted localities if they are making progress through regional activities to enhance efficiency, effectiveness and competitiveness. More entrepreneurship could be encouraged. Keeping gains from efficiency reductions, less reporting, and other forms of autonomy could be allowed. Based on criteria, possibly like that used under the Regional Competitiveness Act and/or the Urban Partnership, if progress is sufficient, a periodic certification would allow for more defined autonomy. Such a system, while somewhat different, exists in public higher education today. (It may be further developed by the work of the Governor's current Commission on Higher Education.)

On another, possibly even more impactful, level, local and regional performance metrics could be put in place much like those developed by the Council on Virginia's Future in Virginia Performs. (See Appendix 2.) Billions of dollars are provided to localities for services deemed important by the state. (Public education, health and human services, public safety and general operations). Appropriate performance metrics on outcomes desired from this funding could be established. State policies would be reflected in these desired metrics. Funding from the state could then vary, say between 80-120% of existing, base funding depending on performance and progress.

An appropriate combination of these two approaches could strengthen both. The performance metrics may be part of the criteria to get more autonomy. Excess funding beyond 100% of the base might not be available unless certification of regional progress had occurred. Other variations can be imagined.

Finally, <u>Virginia Performs</u> captures state-wide performance in many substantive areas, but these metrics are averages. The real action – the real diagnostic which must be understood for change – is at the regional level. Appendix 2 (<u>Virginia Performs: A Regional Perspective</u>, August, 2010, from the Council on Virginia's Future) shows the enormous variation of strengths and needs of our regions. Rarely do state-wide initiatives take into account the stark differences in our regions. Generalizing about state performance does little to change regional performance. We need to develop regional focus on regional strategies and priorities. Based on history and the inadequate inducement provided by voluntary cooperation, we believe it is only through state action that localities will begin to act more like regions to the greater good of all our citizens. We want to reiterate this statement. State action is essential. It is the principal element that has been lacking to make progress in these areas.

It is not contemplated that existing political units would be merged or combined.

Rather, overlays of appropriate regional organizational structures in appropriate subject areas are contemplated.

We acknowledge that, based on a preliminary scan, we cannot find another state which has implemented a state-wide, regional, incentive system such as we envision. But similarly, we have developed in the Council on Virginia's Future, a sustainable, bipartisan vehicle, unreplicated in other states, which has focused successfully on

improved operational performance and the strategy of the Commonwealth. Virginia and many of our localities are recognized for their excellence and innovation, so it is not unusual for us to lead a meaningful change initiative.

There are numerous examples of regions that have leveraged regionalism to their great advantage: Some of the most notable are The Metro Council in Minneapolis/St. Paul, Minnesota. The Portland, Oregon region has adopted successful programs especially in land use and infrastructure. San Diego, California is a third model of substantive restructuring. In addition, decades of effort in Pittsburgh-Allegheny County, Pennsylvania, Charlotte-Mecklenberg, North Carolina, St. Louis City and County, Missouri, and Louisville – Jefferson County, Kentucky, are finally producing regional results.

Along the way, we observe that we need to better explain the importance of the region to every citizen's future success. We do not believe, because of many of the earlier cited obstacles, any of us has done a good job in explaining the significance of regional citizenship.

We believe a thorough "situation analysis" of state/local relations, the history of distinctions among localities and state funding to them, the evolution of mandates, regionalism, prior studies, best practices, and alternative approaches, contemplated, failed and successful, needs to be undertaken by a properly structured group to make recommendations which can lead to landmark legislation which can significantly enhance the efficiency, effectiveness and economic competitiveness of the Commonwealth and its regions and localities. It has become apparent to the members of this Committee that local government officials are prepared, perhaps even anxious, to

embrace and pursue the proposed undertaking. A great deal of hard work is envisioned. Priorities, strategies and goals will have to be established. We believe the effort will provide a dramatic and significant return on investment to the state, regions, localities and our citizens. The economic conditions in the country and the Commonwealth plead for this action. Our citizens are dependent on us to provide new, sustainable solutions to our issues and to put a platform in place that will provide more economic opportunity for all. We urge support of our recommendation.

APPENDIX 1

Below is an incomplete list of many relevant studies and actions:

- 1. Report of the Virginia Metropolitan Areas Study Commission (Hahn Commission), Senate Document No. 16, 1967.
- State/Local Relations and Service Responsibilities: A Framework for Change, Senate Document No. 37, Joint Legislative Audit and Review Commission (JLARC), 1993.
- 3. Final Report of the Advisory Commission on Intergovernmental Relations on the Condition and Future of Virginia's Cities, Senate Document No. 14, 2003.
- 4. Regional Competitiveness Act of 1996 (HB1515/SB566).
- 5. Revenue Sharing allowed by Statutory Authority (Code, §§15.2-3400 and 15.2-3401; Code §15.2-1301; Code §15.2-6400 et. seq.; Code §15.2-1300; Code §15.2-6200 et. seq.).
- 6. The Commission on Virginia's State and Local Tax Structure for the 21st Century (Morris Commission),

Appendix 1

Virginia Performs: A Regional Perspective



August 2010

Jane N. Kusiak
Executive Director
Council on Virginia's Future

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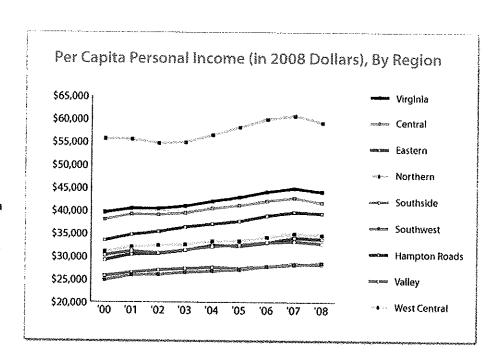
I. Virginia Performs: Regional Outcomes

This appendix is based on and complements data presented on the Virginia Performs website, which includes a high-level scorecard for Virginia based on more than 50 quality-of-life indicators (VaPerforms.virginia.gov). The information here focuses on regional outcomes. The eight regions that the Council uses for analysis purposes are presented on page 17.

While Virginia fares well on many performance measures, some of Virginia's diverse regions do not fare nearly so well; statewide averages tend to mask the sometimes significant differences in regional outcomes. While differences among regions are not unusual in states with growing urban and slower growing or declining rural areas, the contrasts can be stark, and a few indicators are presented here to highlight some of these differences.

Regional Economies

In several respects, Virginia's diversity is nowhere more apparent than in the economic arena. The gap between inflation adjusted per capita personal income levels in Northern Virginia and the rest of the state is large. The Northern region had the highest income in 2008, which at \$59,068 was almost 42 percent higher than that of the second highest, the Central region at \$41,682. The Southside and Southwest regions had the lowest per capita

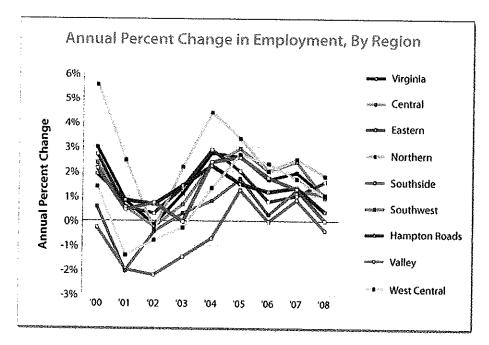


personal income at \$28,286 and \$28,547, respectively. The impact of the Northern region on the state average is apparent: no other region reached the statewide average.

Between 2000 and 2009 Virginia's per capita income grew at a rate of 1.2 percent, compared to the national average of 0.4 percent over the same period. Within Virginia, Hampton Roads had the fastest growth rate at 2.05 percent between 2000 and 2008, followed by the Eastern (1.85%) and Southwest (1.74%) regions. The Northern region had the slowest growth at 0.76 percent.

Unemployment grew significantly across Virginia in 2009, rising at the state level from slightly less than four percent in 2008 to 6.7 percent in 2009. The unemployment rate varied in 2009 from a high of 11.6 percent in the Southside region to a low of five percent in the Northern Region. The

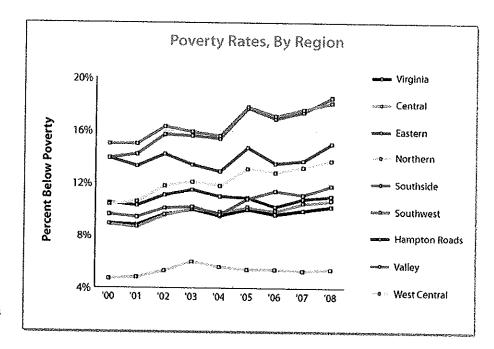
Southwest region was second highest with 9.1 percent unemployment. Unemployment in the other regions ranged from a low of 6.8 percent in Hampton Roads to 7.6 percent in the Eastern region.



Between 2000 and 2005, Virginia's employment grew at a faster rate than the national average but it lagged U.S. growth during 2006-2008. Regional employment growth data in 2008 indicates that the Northern region (1.82%) had the fastest growing rate in the state over the previous year. The Eastern region exhibited the second highest employment growth at 1.59 percent. Virginia's remaining regions all saw rates at or below 1.05 percent.

Data from the Virginia Employment Commission indicates that by the end of 2009, nonfarm employment fell by 183,500 from Virginia's pre-recession high of 3,780,200 achieved in April 2008. Statewide in 2009 there were 135,400 jobs lost, or 3.6 percent of nonfarm employment. All sectors lost jobs except for Private Education and Health Services, which grew by 9,600 jobs or 2.1 percent, and Federal Government (6,700 jobs or 4.1%).

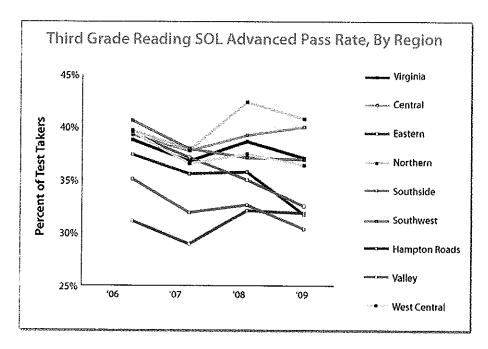
Differences in job growth and income levels affect poverty levels. Statewide, Virginia had the 12th lowest poverty rate in the nation in 2008. Within Virginia, the Southside region had the highest percentage (18.5%) of individuals living below the poverty level of any region in the state, followed by the Southwest (18.1%) and Eastern (15.0%) regions. At the other end of the scale, the Northern region (5.4%) had the lowest percentage of individuals living below the poverty level, followed by the Central (10.7%) and Hampton Roads (11.0%) regions.



Council on Virginia's Future

Educational Attainment

Researchers have suggested that success in reading at the third-grade level is a good indicator of future educational progress. Virginia students take the Standards of Learning (SOL) assessments for the first time in the third grade. Overall pass rates for the third grade reading assessment for the 2008-09 school year were at 86.8 percent. For the regions, in 2008-09 the Eastern and Valley regions had the lowest pass rates, at 78.4 and 84.7 percent, respectively. The Southwest and Northern regions experienced the highest pass rates in 2008-09, at 88.2 percent.



The average advanced pass rate meaning students who passed at least 31 of 35 items - was 18.8 percent in 2004-05. Since revisions to the SOLs were put in place four years ago, the advanced pass rate has improved dramatically, more than doubling on average. There was, however, a slight decrease in 2008-09 (37.2%) from the previous year's rate (38.9%).

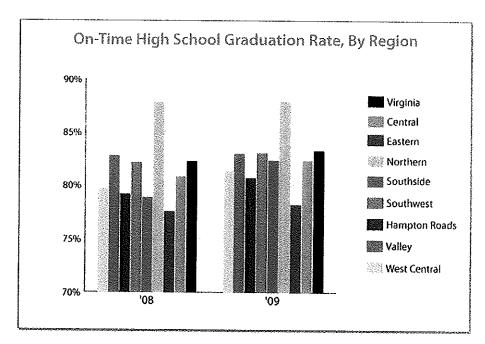
In 2008-09, the Northern region had the best advanced performance at 41.2 percent, followed by the Central region at

40.4 percent. The Southside region had the lowest advanced pass rate at 29.8 percent.

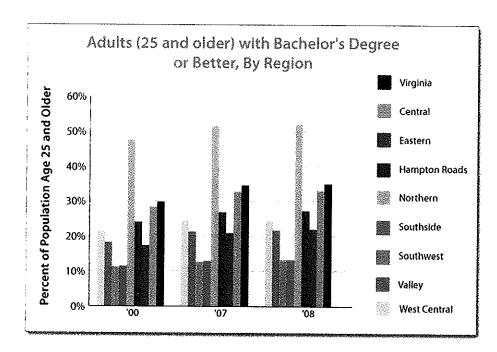
The high school graduation rate is a good indicator of the health of Virginia's school system and of

the future success of its young citizens. Completion of high school or its equivalent is increasingly the minimum level of education sought by employers; moreover, unemployment rates are lower and lifetime earnings are substantially higher for high school graduates than for high school dropouts.

Regional graduation data for 2008-09 is based on Virginia's new measurement of on-time graduation performance, which is calculated as a percentage of



the corresponding cohort of students entering the freshman class four years prior. This data now accounts for students who moved and those who were held back or promoted; individual students are tracked from year to year using the Commonwealth's longitudinal student data system.



Workforce quality is closely tied to labor productivity, making it a key determinant of economic growth and wages. Educational attainment, in turn, is considered a major determinant of workforce quality and is often an indicator of a region's ability to attract and develop high-skilled, high-paying jobs. One measure of educational attainment is the percentage of the adult population with at least a bachelor's degree.

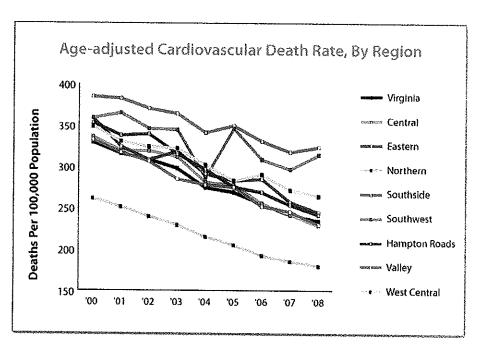
In 2008, approximately 34.7 percent of all adults 25 and older in Virginia had attained at

least a bachelor's degree. More than 14 percent of the population had achieved an advanced degree, one of the ten best rates in the country. However, attainment rates vary significantly among the regions, ranging from 51.7 percent in the Northern region in 2008 to 13.0 percent and 13.1 percent in the Southside and Southwest regions, respectively. The second and third best regions -Central at 32.8 percent and Hampton Roads at 27.0 percent - were below the statewide average, indicating once again the impact of the Northern region on statewide averages.

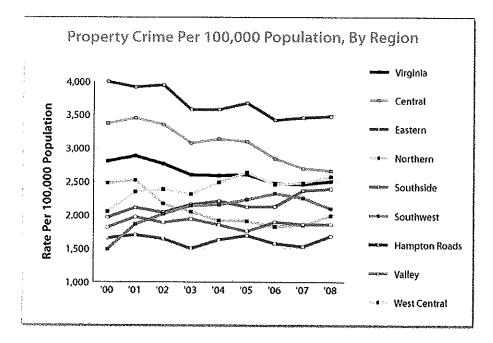
Other Indicators

Differences among the regions are also evident across a range of health outcomes as many healthrelated risk factors tend to decrease with increases in educational attainment and incomes.

Cardiovascular death rates, even though they continue to fall across much of the state, present a good example. In 2008, the Northern, Central, and Valley regions of Virginia had the



lowest age-adjusted death rates for major cardiovascular disease, with 179, 228, and 229 deaths per 100,000 people, respectively. Southside had the highest rate in 2008, with 323 deaths per 100,000 people.



Crime rates do not follow this pattern as clearly: urbanization appears to play an important role. Virginia's highest violent crime and property crime rates in 2008 were in the Hampton Roads region, which saw rates of 431 and 3,473 per 100,000 people. This property crime rate is down significantly from its 2000 rate of 3,996. The lowest property crime rate was in the Eastern region, with a rate of 1,685 per 100,000 people.

The table and charts in the following pages present summary information for each of the eight regions.

II. Regional Summaries

NOTES: All population figures are in the thousands (000's); average growth percentages listed are since 2000.

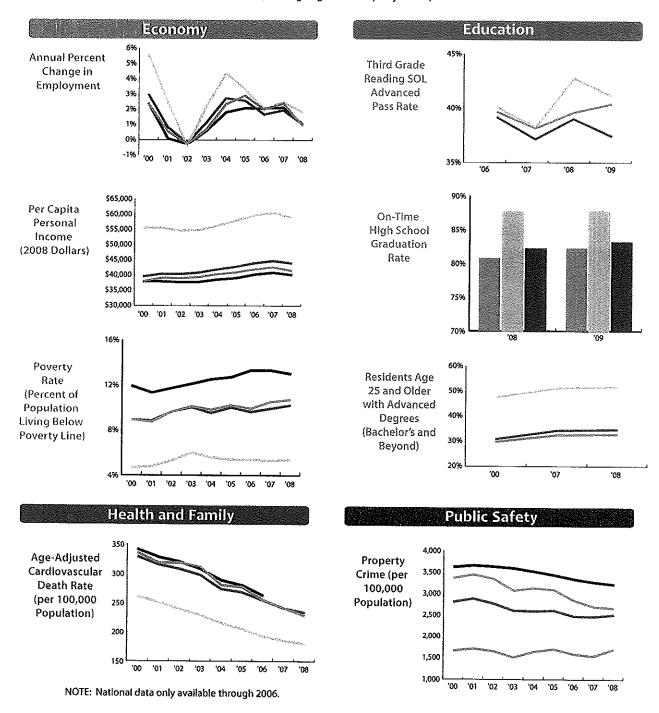
Region	Key Characteristics			
Central Region	Population: 2009: State Share: Avg. Growth:	1,547.2 19.6% 1.39%	 Diversified economy, second lowest poverty rate The 2009 high school graduation rate lagged the state average and the rates in the Northern, Valley, Southside, and Southwest regions Second highest advanced pass rate for the third grade SOLs in 2009 	
Eastern Region	Population: 2009: State Share: Avg. Growth:	150.8 1.9% 1.03%	 Rural economy with lower educational attainment and higher poverty rates Third grade SOL pass rates and high school graduation rates are the lowest among the regions Highest high school dropout rate 	
Hampton Roads Region	Population: 2009: State Share: Avg. Growth:	1,652.4 21.0% 0.59%	 Maritime and the military play leading roles in the regional economy; growing technology assets The third grade SOL advanced pass rate declined by 6.2 points between 2006 and 2009 Second lowest high school graduation rate 	
Northern Region	Population: 2009: State Share: Avg. Growth:	2,551.2 32.4% 2.10%	 Economic "engine" for Virginia Heavy technology and government presence Highest educational attainment levels, along with highest performance in third grade reading and high school graduation. 	
Southside Region	Population: 2009: State Share: Avg. Growth:	383.2 4.9% -0.10%	 Significant economic dislocation due to an historic reliance on manufacturing and agriculture Largest decline in high school dropout rates Third grade SOL reading advanced pass rate declined by 5 points from 2006 and is now lowest in the state Lagging performance on a range of economy, education attainment, and health indicators 	
Southwest Region	Population: 2009: State Share: Avg. Growth:	418.9 5.3% 0.15%	 Historic reliance on manufacturing and mining Lagging performance on a range of economy, education attainment, and health indicators High school graduation improved to the second highest in the state for the 2008-09 school year Second highest advanced third grade SOL pass rate 	
Valley Region	Population: 2009: State Share: Avg. Growth:	477.2 6.0% 1.22%	 Historic reliance on agriculture and poultry mitigated by growth in manufacturing Largest decline in third grade SOL advanced pass rate between 2006 and 2009 (7.5 percentage points) High school graduation rate slightly below the state average 	
West Central Region	Population: 2009: State Share: Avg. Growth:	706.8 9.0% 0.63%	 Manufacturing remains an important component of the economy Third lowest high school graduation and third grade SOL advanced pass rates for the 2008-09 school year Higher education a strength along the Blacksburg-Roanoke-Lynchburg corridor 	



Central Region



- Northern (Leading Region)
- Virginia
- National
- Eastern (Leading Region for Property Crime)



VaPerforms virginia.gov



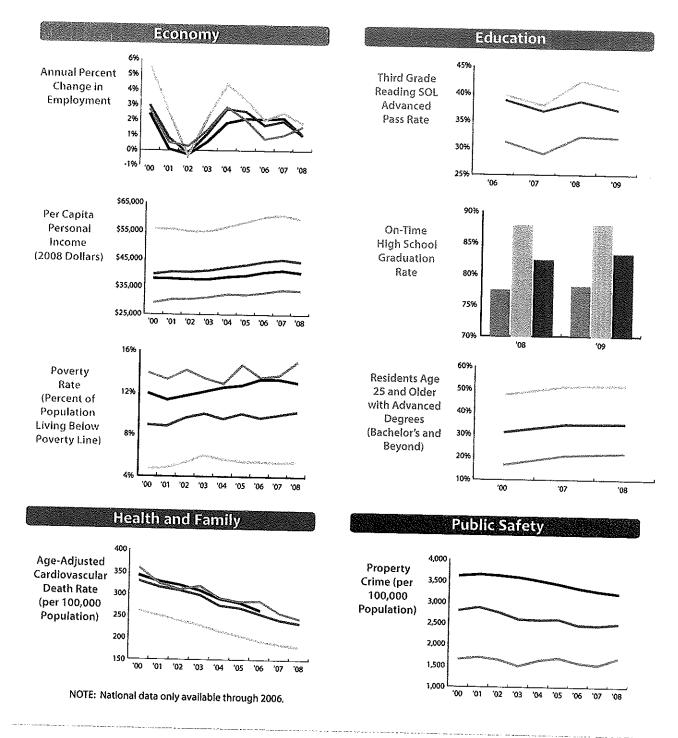
Eastern Region



Northern (Leading Region)

Virginia

National

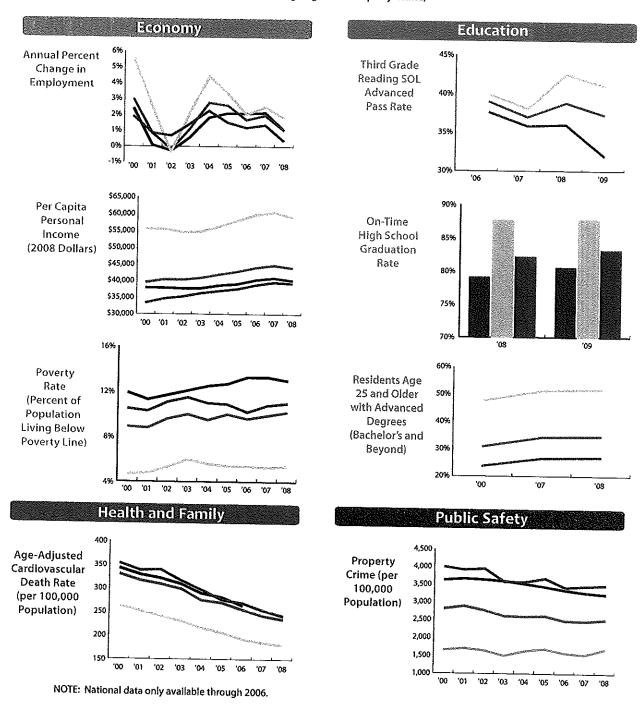


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Hampton Roads Region

- Hampton Roads
- Morthern (Leading Region)
- Virginia
- National
- Eastern (Leading Region for Property Crime)



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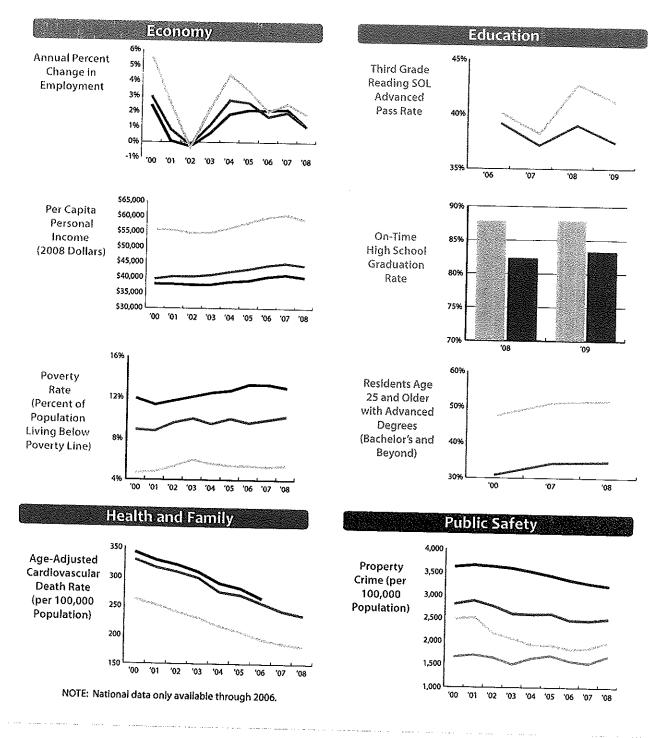
Northern Region

Northern (Leading Region)

Eastern (Leading Region for Property Crime)

■ Virginia

National

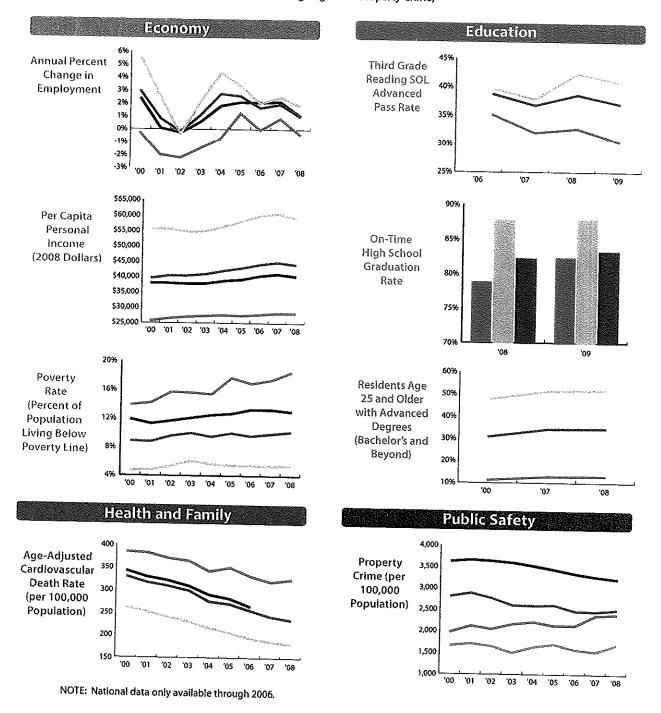


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Southside Region

- Southside
- Northern (Leading Region)
- Virginia
- National
- Eastern (Leading Region for Property Crime)



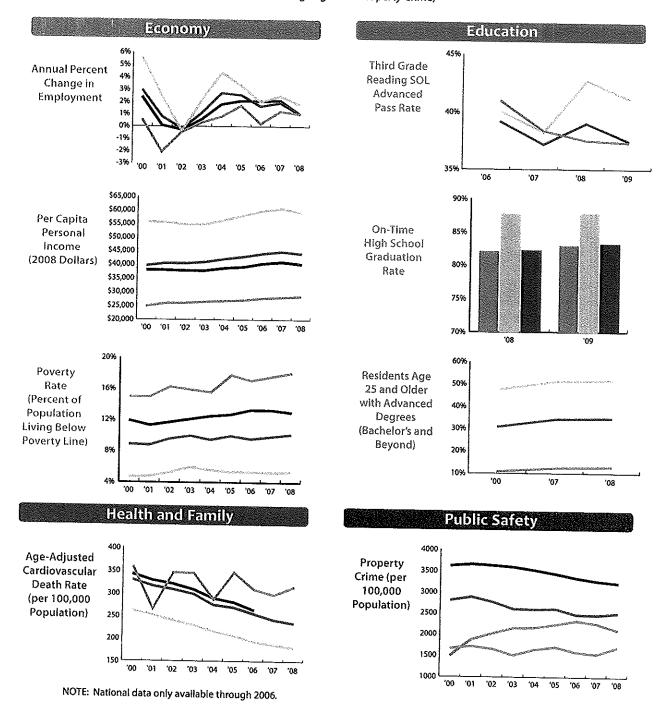
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Southwest Region

Southwest

- Northern (Leading Region)
- Virginia
- National
- Eastern (Leading Region for Property Crime)

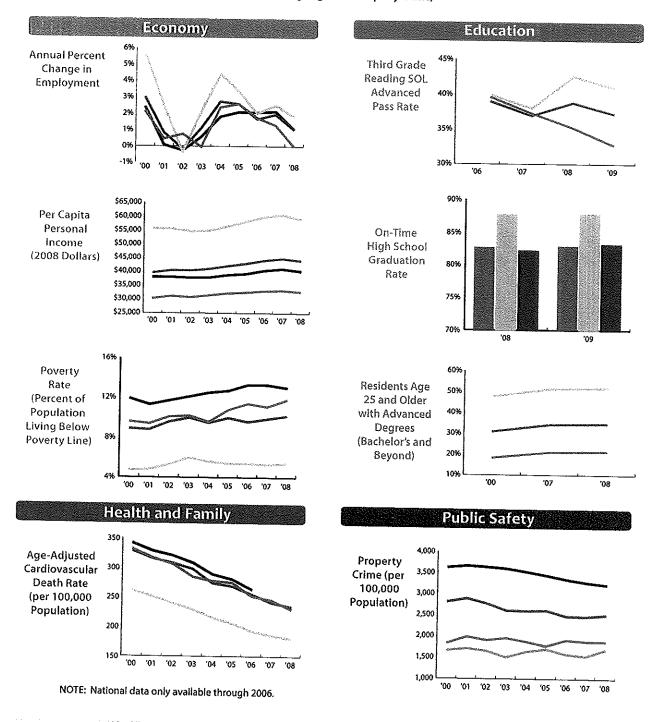


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Valley Region

- Valley
- Northern (Leading Region)
- Virginia
- National
- Eastern (Leading Region for Property Crime)



VaPerforms virginia.gov



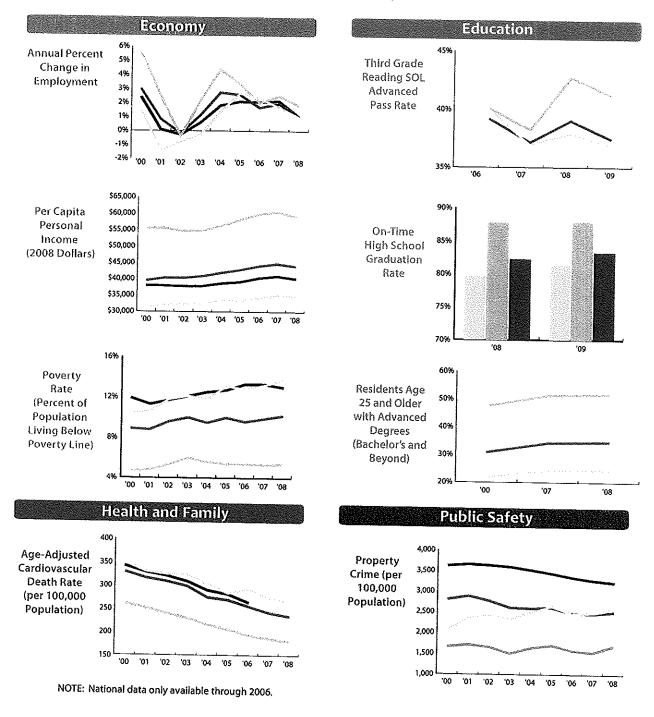
West Central Region

West Central

- Northern (Leading Region)
- Virginia

■ National

Eastern (Leading Region for Property Crime)

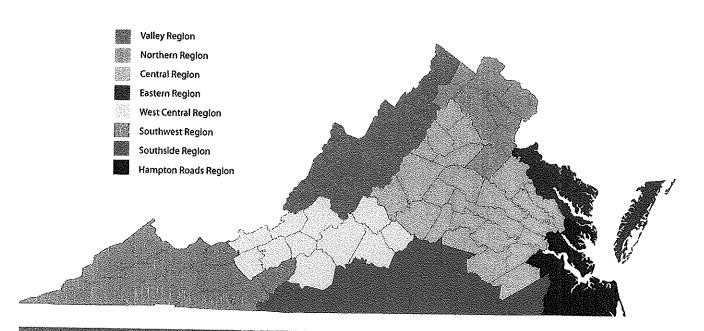


Vaperforms virginia.gov

III. Council on Virginia's Future: Eight Regions

For purposes of analysis, the Council's Virginia Performs system divides the state into eight regions.

Virginia Performs Regions



Valley

Alleghany, Augusta, Bath, Buena Vista, Covington, Frederick, Harrisonburg, Highland, Lexington, Page, Rockbridge, Rockingham, Shenandoah, Staunton, Waynesboro, Winchester

Northern

Alexandria, Arlington, Clarke, Fairfax (city and county), Falls Church, Fauquier, Fredericksburg, Loudoun, Manassas, Manassas Park, Prince William, Spotsylvania, Stafford, Warren

Central

Albemarle, Amelia, Buckingham,
Caroline, Charles City, Charlottesville,
Chesterfield, Colonial Heights, Culpeper,
Cumberland, Dinwiddie, Fluvanna,
Goochland, Greene, Hanover, Henrico,
Hopewell, King & Queen, King William,
Louisa, Madison, Nelson, New Kent,
Orange, Petersburg, Powhatan, Prince
George, Rappahannock,
Richmond (city), Sussex

Eastern

Accomack, Essex, King George, Lancaster, Middlesex, Northampton, Northumberland, Richmond (county), Westmoreland

West Central

Amherst, Appomattox, Bedford (city and county), Botetourt, Campbell, Craig, Franklin, Giles, Montgomery, Pulaski, Roanoke (city and county), Salem

Southwest

Bland, Bristol, Buchanan, Carroll, Dickenson, Floyd, Galax, Grayson, Lee, Norton, Russell, Scott, Smyth, Tazewell, Washington, Wise, Wythe

Southside

Brunswick, Charlotte, Danville, Emporia, Greensville, Halifax, Henry, Lunenburg, Martinsville, Mecklenburg, Nottoway, Patrick, Pittsylvania, Prince Edward, Southampton

Chesapeake, Franklin, Gloucester, Hampton, Isle of Wight, James City, Mathews, Newport News, Poquoson, Portsmouth, Suffolk, Surry, Virginia Beach, Williamsburg, York

IV. Additional Information

Sites of Interest

Virginia Performs: VaPerforms.virginia.gov

Hampton Roads Performs: HamptonRoadsPerforms.org

Council on Virginia's Future: future.virginia.gov

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